

April 30, 2013

International Valuation Standards Council
68 Lombard Street
London EC3V 9LJ
United Kingdom

The Canadian Institute of Actuaries (CIA) is the national organization of the actuarial profession in Canada. The CIA follows its Guiding Principles, including Principle 1, which holds the duty of the profession to the public above the needs of the profession and its members.

We welcome the opportunity to comment on the discussion paper prepared by the International Valuation Standards Council (IVSC) on the topic of valuation of liabilities. The actuarial profession has considerable expertise in the principles-based valuation of liabilities using risk-adjusted present values (sometimes known as actuarial present value) in insurance, pensions, and other circumstances.

We are responding to select questions, concentrating our remarks on elements that are more pertinent to us.

Question 1

Do you agree that the IVSC should produce a standard or guidance on the valuation of liabilities as defined above? If not, please explain why.

We agree that it is useful to provide guidance on the valuation of liabilities as proposed in the discussion paper.

Question 2

Do you agree that the possible definition of a liability given above is both clear and adequate? If not, any alternative suggestions would be welcome.

We suggest that, in the definition for a liability, the word “could” appears inconsistent in the context of a valuation. We suggest that “is likely to” or “is expected to” should replace “could”.

Question 3

Do you agree that liabilities arising under a financial instrument should be excluded from the scope of this project?

We agree.

Question 4

Do you agree that other liabilities such as rental payments, pension liabilities, insurance liabilities, and deferred tax should also be excluded?

We agree that the valuation of financial instruments and the valuation of pensions and insurance should be excluded from the scope of an IVSC standard on valuing liabilities.

Question 5

Do you consider that contingent liabilities as described above should be included? Please also indicate if there are any other types of contingent liability that should be included.

We note that a number of pension and insurance liabilities involve contingent liabilities where the cost of the obligation is not defined. For example, looking at paragraph 10, property and casualty insurance (known as general insurance in some parts of the world) often involves contractual liabilities to repair or restore an asset, product warranties, or even coverage of site remediation or decontamination. Also, insurance liabilities are not only liabilities of insurers. In many cases the insurance contract does not create the liability; it merely transfers the responsibility for it to the insurer (for a premium). It follows then, that, in the absence of an insurance contract, other entities need to value similar liabilities. We therefore believe that the range of excluded liabilities should be broader and exclude from the scope any liabilities that are similar in substance to insurance or pension liabilities.

Question 6

Please indicate whether you believe potential litigation liabilities can or should be valued and whether they should be included in this project.

We would exclude litigation liabilities from the scope of a valuation standard. We believe that a defendant might allow for a reserve or provision to cover the possibility of having to pay the damages and costs. This is not intended to represent a “value” of a liability.

Question 7

For what purposes are you aware of liabilities being valued?

Although we would agree that the purposes as discussed in section 18 cover most situations that we are confronted with in an insurance or pensions context, we would add another purpose, namely that of providing information to the public.

Question 9

Do you agree that the bases that are appropriate objectives for a valuation of liabilities fall within one of the three categories described in the IVS Framework?

We agree.

Conclusion

The Canadian Institute of Actuaries hopes its comments herein will be of value. We thank you for offering us the opportunity to present our thoughts, and we remain available to answer questions and provide additional information if required.

Respectfully submitted,



Simon Curtis
President